THE NATIONAL CITY BANK OF NEW YORK

1915

U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, OCTOBER, 1915.

The Anglo-French Commission.

THE most important event of the month in the financial world has been the visit of the British and French commissioners charged with the negotiation of a loan for the purpose of stabilizing exchange between the United States and the two countries, and enabling the latter to pay for commodities purchased here. The Commissioners, on the part of the British Government, are Lord Reading, the Lord Chief Justice of England; Sir Edward Holden, Bart., Chairman of The London City and Midland Bank, the leading banking institution in volume of business in Great Britain; and Sir Henry Babington Smith, of the Government; the Commissioners for France are M. Ernest Mallet, a Director of the firm of Mallet Brothers, private bankers, and M. Octave Homberg, representing the French Minister of Finance. The Secretary of the Commission is Mr. Basil P. Blackett, of the British Treasury.

Attitude of Bankers.

The purpose of this loan, so far as American bankers are concerned, is the protection and support of this country's regular trade, which is threatened by the unsettled state of the foreign exchanges. It has been apparent for some time that something must be done to create credits in the United States against which our foreign customers can draw in payment for their purchases, or that the purchases must be reduced. The war has thrown all international trade out of balance, and created problems that could not arise under normal conditions. This country is accustomed to export a large volume of products and its industries are adjusted to that state of affairs. The situation which has been developing for several months cannot be allowed to drift without danger of an interruption to exports and a congestion of products in the home market.

The importance of the export movement, and the distribution by countries and character of products are shown by the tables given below.

Our Great Export Trade.

The merchandise exports of the United States for two years are shown below, by countries, together with the figures for the preceding year:

Principal Countries To Which Consigned	Year To June 30. 1915	1914
United Kingdom	$911,792,000	$594,272,000
France	369,397,000	159,819,000
Canada	300,692,000	344,717,000
Italy	184,820,000	74,235,000
Netherlands	143,267,000	112,216,000
Sweden	78,274,000	14,644,000
Cuba	75,530,000	68,884,000
Australia	43,621,000	45,775,000
Japan	41,515,000	51,206,000
Norway	39,075,000	9,007,000
Russia In Europe	37,474,000	30,089,000
Mexico	34,164,000	38,749,000
Argentina	32,550,000	45,179,000
Germany	28,863,000	344,794,000
Brazil	25,630,000	29,964,000
Belgium	20,662,000	61,220,000
China	16,402,000	24,699,000
India British	11,696,000	10,855,000
Austria-Hungary	1,240,000	22,718,000
Other countries	371,925,000	281,537,000
	$2,768,589,000	$2,364,579,000

The character of the trade is shown by the following statement of the principal classes of commodities:

Classes	Fiscal Year 1915	1914
Wheat and Flour	$482,400,000	$142,400,000
Raw Cotton	376,200,000	610,500,000
Iron and Steel Manufactures, excepting firearms	216,425,000	218,057,000
Meat and Dairy Products	220,100,000	146,200,000
Mineral Oils	133,700,000	152,200,000
Leather and Manufactures of	120,700,000	57,600,000
Copper Pigs, Etc	96,200,000	144,900,000
Cotton Goods	72,000,000	51,500,000
Automobiles and Parts	68,100,000	33,200,000
Horses	64,000,000	3,400,000
Coal	55,900,000	59,900,000
Chemicals, Medicines, Etc	46,400,000	27,100,000
Tobacco, Unmanufactured	44,500,000	54,000,000
Explosives, Including Shells, Cartridges, Dynamite, Gunpowder, Etc.	41,500,000	6,300,000
Corn and Corn Meal	41,300,000	8,300,000
Fruits and Nuts	34,900,000	31,900,000
Oil Cake and Meal	28,900,000	21,700,000
Wool Manufactures	27,300,000	4,800,000
Vegetable Oils	25,800,000	16,300,000
Sugar, Refined	25,600,000	1,900,000
Boards, Deals, Etc	25,100,000	57,600,000
Other Wood and Manufactures of	24,800,000	45,600,000
Zinc Manufactures	21,200,000	400,000
Brass Manufactures	20,500,000	7,500,000
Paper and Manufactures of	19,800,000	20,700,000
Electrical Goods	19,800,000	25,100,000
Barley	18,200,000	4,300,000
Cars and Carriages	17,000,000	18,400,000
Rye	15,100,000	1,600,000
Rubber Manufactures	14,800,000	12,400,000
Fish	12,900,000	12,800,000
Mules	12,700,000	700,000
Fibre Manufactures	12,300,000	12,600,000
Naval Stores	11,100,000	19,900,000
Vegetables	10,800,000	6,900,000
Agricultural Implements	10,300,000	32,000,000
Firearms	9,475,000	3,442,000
All other articles	218,400,000	225,600,000
Total Domestic Exports	$2,716,200,000	$2,290,699,000
Re-exports of Foreign Goods	52,400,000	34,800,000
	$2,768,600,000	$2,324,499,000

The merchandise imports of the United States from all countries for the fiscal year 1914 were $1,893,925,657 and for the fiscal year 1915, $1,674,169,740, and the trade balances in favor of this country were, respectively, $470,653,491 and $1,094,419,600. It is evident now that unless our exports are curtailed by the inability of would-be buyers to make payment, the trade balance in favor of the United States for the current year will be larger than for the year just closed.

The Exchange Situation.

This difficulty about making international payments must be distinguished from any ordinary problem of money-raising at home. It is a different problem. A would-be buyer in London might have ample funds to his credit in a London bank, against which he could draw for payments at home, but he could not use it for payments in New York, unless he could find someone who would take it in exchange for a New York credit. In other words, it is not a problem of raising money but a problem of exchange.

Ultimately, settlements must be made by the transfer of some kind of property. Ordinarily, exports and imports so nearly balance that the difference is settled by shipments of gold or the temporary use of bank credit, but with monthly balances running above $100,000,000 this method is impracticable. The sale of American securities in this market is another method, but these securities are in private hands, and do not come out fast enough. The result is that the demand in London, Paris, and all European markets, for exchange on New York so far exceeds the supply that a high premium must be paid for it. Thus, on the basis of gold contents, the equivalent in French money of the United States dollar is 5.18 francs, but within the last month French payments in the United States have cost as much as 6 francs to the dollar, or a discount of about fifteen per cent. The gold par of British sovereign in United States money is $4.8665, but it has been down to $4.49. The Russian ruble is at a discount of 36 per cent.

This discount upon foreign money or premium upon the dollar, means that exchange on the United States is hard to get. There is not enough to go around, and higher rates for it adds just so much to the cost of American goods to the foreigner. It is something that he pays and that the seller does not get; it goes to the fortunate individual who has credits in the United States for sale. The Englishman or Frenchman who is able to sell goods or securities or borrow money in the United States can sell the credit so created at a premium to his fellow countrymen who want to make purchases here.

The situation therefore encourages exportation to the United States, and discourages importation from the United States. This is the natural corrective for an unbalanced state of trade, and if nothing is done by organized effort to create an additional supply of credit here against which foreign drafts may be drawn, the disparity between foreign money and United States money will continue to increase, until there is a sufficient reduction of our exports, or increase in our imports, to establish an equilibrium.

The fall in the pound sterling to $4.49 occurred despite heavy shipments of gold and securities, and the recovery to higher levels was doubtless due to the negotiations for credit that have been since going on. Nobody can tell where the rate would go to if the effort to create the credit should fail, but it would have to fall until an equilibrium between payments from and to this country was reached.

Gold and Securities.

It is true that a considerable amount of gold can be forwarded and will be forwarded in addition to any loan likely to be raised here, but the amount of gold that can be spared from foreign reserves is limited, and, furthermore, it is not desirable from the standpoint of the United States that a clearly disproportionate share of the world's gold should be drained into the United States. This feature of the problem has been referred to in these columns heretofore, and is discussed again elsewhere.

The sale of American securities by foreign holders is not a definite reliance. The people who own American securities are not necessarily the same people who want to make purchases in this country, and although sales are being made continually there is no control over them or certainty about them. The governments could adopt measures to force them out, but such action would have a drastic effect that might cause disturbance here.

Moreover, all such suggestions ignore the fact that the exchange situation requires prompt action. The United States stands today with the largest crop in its history practically ready for market, and already beginning to pass out of the hands of producers. The latter are interested in the prices of the next few weeks or months. This country does not want its exports held up waiting on foreign sales of our securities. Any delay in the movement is likely to affect both the volume and value of exports. Uncertainty and confusion in the exchange situation will be a barrier between us and our foreign customers. This was one serious objection to the scheme to require the deposit of American securities as collateral. The governments own no American securities.

All Exchanges Affected.

That more than one-third of all our exports last year went to Great Britain and France is shown by the above table, but that does not tell the full importance of the exchange relations between New York and London. England is a great trading country; her imports are very much greater than those of any other country, and resulting from this fact the exchanges of the world have pivoted upon London. Conditions created by the war have favored the use of dollar exchange, or payments through New York, to an increased extent, but a change of this kind moves slowly. Transactions in exchange spring from transactions in trade and finance, and the world's payments will not be generally made through New York until the United States takes the lead as a trading and lending nation. Moreover, we cannot help ourselves into such a position by drawing into our shell, but only by increasing our activities and relationships abroad.

Whatever the future may have in store, the present situation is that many countries make and receive payments through London, and in order to make payments in the United States it is often necessary for them to convert London credits into New York credits. The gross exports of South America amount to about $1,178,622,061, the figures for 1913, the last year of normal trade. The United States received of these $217,734,629, and the products which go to Europe are so generally like our own that we cannot absorb them here. How are the countries of South America to buy more goods

of us unless they can convert their credits elsewhere into dollars? The same is true to a great extent of Holland and the Scandinavian countries, and of others. International trade is a complicated maze of transactions, and a break-down of exchange between New York and London will affect trade with many countries.

America's Problem.

It is evident that this country has another and different interest in this loan from that of a lender It is interested as a country with $2,700,000,000 worth of goods to sell abroad in providing the credits by which the balances may be settled, and by which a stable basis for the entire trade may be maintained. Not only the amount of sales represented by the balances is affected, but practically all of them, at least so far as influence upon prices is concerned. And a great volume of domestic trade is directly dependent upon a free movement of our surplus products to foreign markets.

It is held by some people that our trade will go on, somehow, because, as they say, the purchases must be made. But a one-sided trade cannot go on without the help of credit. There must be payment of some kind. When a partial crop failure occurs in one of our states, the purchases of that locality are necessarily curtailed, unless the people can command credit outside. The people of Great Britain cannot send their lands or houses, or their railways and other fixed wealth to the United States; the only thing they can do promptly is to use their government credit.

The importance of the situation naturally is more readily comprehended in those sections of the country which are directly interested in the export trade, but it is needless to say that whatever concerns their prosperity is of moment to the entire country. A large credit can only be provided by the participation of all sections.

The Neutrality Question.

There are people, who, either because their sympathies are against the Anglo-French Allies, or because the loan seems to them inconsistent with strict neutrality, or because they think it will tend to prolong the war, are opposed to the transaction. We believe these views are due to mistaken emphasis upon the relations of the loan to foreign interests, and failure to appreciate its relations to domestic interests.

The war is so stupendous an affair that business all over the world is affected by it and more or less related to it. Anything that this country may do, or refuse to do, is likely to have some bearing on the war, and affect the combatants unequally. We cannot be governed by such considerations where our own interests are concerned and we are certainly within our rights. It is not desirable or for the good of the world that the rights of neutrals shall be abandoned, and there would seem to be no better rule for the observance of a consistent and just neutrality than to put American interests first wherever it can be done under the clear authority of international law. It would not be neutrality for this country to sacrifice its own interests to serve the interests of one of the belligerents; on the contrary, it would be an extraordinary act of favoritism.

The people of this country had a great foreign trade before the war, as appears above, and they surely have a right to safeguard it by granting credits to cover purchases in this country. If the individual farmer or manufacturer granted direct credit on sales to foreign customers there could be no possible objection to it, and the case is not changed if American bankers and investors carry the credit for him.

Why should the fact that such a credit may be incidentally advantageous to one or the other of the belligerents, be treated as of more importance than the fact that it is of great advantage to the producers of the United States? The interests of the latter are properly entitled to the first consideration here. They have a valid claim to the services of the American banking system for assistance in their legitimate trade.

If the credit for the purpose of supporting foreign exchange is to be condemned on the ground that it helps one side of the conflict, or prolongs the war, then the purchase of American securities from belligerent holders must also be condemned, for it accomplishes the same result. If our securities would come back fast enough they would create all the credits necessary. Neither side allows its citizens to trade with the enemy, for the reason that doing so may strengthen him, but there can be no question of the right or propriety of neutrals trading in their own markets.

There has been some discussion of the advisability of excluding all payments for munitions of war from the proceeds of the loan, but while doing so might make the proposal more acceptable to some persons, it is evident that there would be little real effect to such a provision. The loan will provide only a minor part of the credits that will be created here, importations of goods, gold and securities supplying the larger part. A restriction upon the uses of the loan credit would only mean that payments for the excluded articles would be made from the other sources, or in other words, from the larger pocket. The circumstances would scarcely warrant emphasis upon such a provision.

The Right of Opinion.

Where sharp differences of opinion exist, and much feeling is aroused, it is a very human impulse to want to impose your views upon the other man by force, if he obstinately refuses to yield to argument. A group of bankers in Wisconsin, members of a county association, has issued a letter protesting against the loan and pledging each signer to withdraw all balances from correspondents participating in it. Similar instances are reported. Evidently the proposition appears very objectionable to these parties, and no doubt they feel deeply on the subject. We may assume that they have little or no relation to the foreign trade and that its problems have never come home to them. They have no obligations or responsibilities in connection with it. But other people are differently situated and see things in a different light.

The freedom of individual judgment and choice, under the law, is fundamental in this country. It is the theory of our institutions that the individual should act upon questions of public policy as their merits appear to him, without pressure from above or from any quarter that may swerve him from his own conclusions. The secret ballot has been provided to safeguard such expression at the polls, and independence of judgment is no less to be desired in an instance like this.

We can have all kinds of opinions in this country and can get along with them very well if we know the virtues of toleration, but if we all attempt to use the boycott and secondary boycott, and to have nothing to do with anybody who does not agree with us in all things, the situation will become very complicated indeed. The friends of peace should be the last to resort to this method of keeping the country out of war, for war itself can do nothing worse than compel one people to obey the will of another.

Opposition on the ground that the banking situation will be seriously weakened by subscriptions to the loan is not worthy of serious comment. As shown by the last call of the Comptroller the banking situation in the United States was never so strong as now.

Terms of the Loan.

The plan contemplates the issue of $500,000,000 five-year 5 per cent. bonds, constituting a direct joint and several obligation of the British and French governments, as regards both capital and interest.

The bonds will be repayable at the end of five years or convertible, at the option of the holder, into 4½ per cent. bonds of the two governments, repayable not earlier than fifteen years and not later than twenty-five years from the present time by the two governments jointly and severally.

The bonds will be contracted for by a syndicate, which all dealers are invited to join, at 96. All members of the syndicate will be upon the same basis, and they will bear the expense of advertising and offering the bonds to the public. The price to the public will be 98, at which they will yield about 5½ per cent. The proceeds of the loan will be employed exclusively in America, no money leaving the country.

The Security of the Loan.

After all is said that may be as to the importance of the credit, there is the question as to the security of the loan. Individuals are not expected to make a bad investment for the general good.

If they were not engaged in a great war, nobody would raise any question about the credit of Great Britain or France, but the increase of indebtedness on account of the war looks very formidable. The war waste is bad enough as it is, but it is made to appear much worse by the loose calculations which are current. A common practice is to add together the actual expenditures of the governments, a liberal estimate of the loss of production and destruction of property, and all the debts incurred. Evidently there are vast duplications in this.

The real backset chargeable to the war will be measured by the value of the property which was in existence at the beginning of the war and has been destroyed, and the loss of life and limb. There is a great waste of current production, but, aside from failure to make good wear and tear, this does not make the world worse off than it was before; it signifies present privation or failure to make progress. The payment of the debts will not involve a second destruction of wealth; destruction ends with the war. The capital gathered up by taxation and used for the payment of interest or principal will be passed on undiminished into the channels of trade, and be available for the employment of labor and the up-building of the community, the same as though there were no debt. There is great mystery about the burden of debt, but the truth is that the real objections to debt lie against the misuse, or waste, of funds when it was created. The debt itself consumes nothing.

As soon as the war is over industry and progress will begin anew, and all of their fruits will belong to that time. Not one dollar can be taken away from the future or the present and given to the past. The armies are not being fed or clothed from next year's crops, or supplied with ammunition by next year's labor.

The recuperative powers of all the peoples will be found to be surprisingly great. The stimulus of new conditions and new demands will be felt, and changes in methods of production which will increase the effectiveness of the people are likely to be rapid. Therefore, the ability of all the countries to bear taxation and discharge their indebtedness will steadily increase when the war is over. The burdens of the British people after the Napoleonic wars, which were much greater relatively than those likely to result from this war, were rapidly lightened by the development of industry and their increasing powers of production, and this is the hopeful prospect for all countries after this war. Industry advances by geometrical progression, one invention leading to another, and one line of industry helping another.

The body of the population in all of the countries, on both sides of the unhappy struggle, are people of debt-paying character. The desire to pay their debts is bred in them, is a part of them, and they are not going to suddenly change their character. There may be differences among them over the kind of taxation to be employed, but there are the best of reasons for believing that the debts will be cared for.

Moreover, although this loan is without special security, or any agreement as to priority, it stands in a class by itself as a special loan, negotiated in a friendly country, and again it is safe to say that no one of the contending nations would allow such a loan to be dishonored.

The British Budget.

The British Government has taken a step which carries it beyond any other in providing for the expenses of the war out of taxation. The first increases were made last fall, when the taxes upon incomes of the highest class were raised to twenty-

five per cent. and taxes were raised upon tea and beer. It has been known that a new schedule of both internal and customs duties was in preparation, and it was submitted to Parliament a few days ago by the Chancellor of the Exchequer. The country appears to have been prepared for an even higher schedule than is proposed, and adoption practically without amendment is expected.

The rate upon the highest class of incomes is raised to 34 per cent., and the limit of exemption for incomes is lowered from $800 to $650. In neither case does the new budget go quite as far as was thought probable. The most important increase upon necessaries is in the case of sugar, upon which the duty is raised to about 2 1-5 cents per pound. The increases fall chiefly upon luxuries.

The total revenues of the British Government for the next full fiscal year, on the basis of the budget now proposed, are estimated by the Chancellor of the Exchequer at about $1,935,000,000, at which the increase over the revenues of the fiscal year 1913-1914 would be about $950,000,000. The revenues of 1913-1914 not only met the regular peace expenditures, but provided about $50,000,000 for the sinking fund. At this rate the war taxes would carry $19,000,000,000 of new indebtedness at five per cent. The Chancellor of the Exchequer estimates that the total British debt March 31, 1916, will be $11,000,000,000, of which $7,500,000,000 will be new debt since the war began. After March 31st next, therefore, these revenues will be sufficient, at the Chancellor's estimate, to pay the interest on $12,500,000,000 of additional debt at five per cent.

Over and against these resources the expenditures continue to mount upward. The Prime Minister in the House of Commons on September 15th stated that from April 1 to the end of July they averaged $13,500,000 per day; from July 1 to July 17, $15,000,000 per day, and from July 18 to September 11, rather over $17,500,000 per day. This includes advances to the allies, which he gives as the main cause of the increase.

The foreign investments of the British people are larger than those of any other people, and scattered all over the world. At this time it is practically impossible for them to realize upon any of these except those in the United States. There are no markets elsewhere. It is possible that arrangements may be worked up for the sale of some of these properties, located in South America for instance, in the United States, but the fact that the corporations are all British, and that their earnings must remain subject to the British income tax, is a serious obstruction to the transfer of their securities. They are, however, a source of large income.

Great Britain's debt, with the exception of this loan, is all held at home, and the country is rich in highly developed industry and a capable population. The taxes for the support of the national government rest very lightly upon the great body of the people.

In another part of this Bulletin appears an article by Sir George Paish, of the London *Statist*, reviewing in interesting detail the public debt, revenues, income and resources of the British Government and people.

French Credit.

The French people are industrious, frugal and thrifty, and have borne heavy burdens in the past without flinching. The war indemnity which in 1871 they agreed to pay to Germany was so great, according to the standards of that time, that the accomplishment was regarded as doubtful, but its payment had no noticeable effect upon the progress of the country. French investments abroad have greatly increased since that time, and when market conditions have become normal again will probably be drawn upon for the means to take up all French obligations abroad.

Gold Inflation.

We have already remarked upon the difficulty which many people find in accepting the idea that a country can have too much gold for its own good, and we are not surprised that there should be dissent from our views on the subject. The notion that the more money a country can have the more prosperous it must be is one of the most persistent and plausible fallacies that has ever confused the affairs of the business world. Some of the critics intimate that anybody who questions the value of unlimited importations of gold must be actuated by concealed motives. The man who is really interested in the subject will not care so much about the motives of those who discuss it as he will to know the scientific truth about the subject. He will be interested in the following quotations.

Professor Richard T. Ely of Wisconsin University, discussing the "Balance of Trade," says:*

"Suppose for purposes of discussion, that the United States succeeded in prohibiting imports for a long period, while at the same time it succeeded in selling a large amount of merchandise to foreign purchasers. What would happen? Evidently a large portion of the money of the world would accumulate in the vaults of American bankers, interest rates would fall,—possibly to rise again later,—and eventually, if the process continued long enough, the prices of American commodities would ascend to such a level that foreign nations would be unable to continue buying in this country. At this point, evidently, our hypothesis breaks down, and we are forced to conclude that the original supposition was an impossible one.

"This hypothetical case and its *reductio ad absurdum* are sufficient to establish certain important practical conclusions. The first is that a country cannot permanently sell goods for money alone."

Professor Ely's original supposition was an impossible one under ordinary conditions, but it is in the way of being realized to an extraordinary extent.

Professor Edwin R. A. Seligman, of Columbia University, discussing the "Distribution of Money," says:†

"The distribution of metallic money is in large measure the result of international forces. Some commodities have an international, others only a local, market; the price level in each country is a result of both considerations. Every nation will, under normal conditions, secure enough money to preserve this relative price level. If there is an abnormal increase in the quantity of gold in one country, it will tend to produce higher prices, augmenting imports of commodities and exports of gold until the equilibrium is restored at a somewhat higher level." * * * * * * "The equilibrium is one between relative

* Outlines of Economics, p. 288.

† Principles of Economics, pp. 465-466.

price levels, which is only another way of stating the relative amounts of metallic money in each country. Any sudden alteration in the use of credit devices will exert its temporary effect; but in the long run there is a correlation between the price level and the money supply."

These extracts are from text-books used in our colleges.

Although there are differences over the quantity theory, it is generally agreed that changes in the volume of money cause changes in the price level, but that once all readjustments in wages, debts, contracts, etc., are made, a country is practically as well off on one level as another. The essential thing is that all commodities and services shall have right relations to each other, and that there shall be a stable standard by which they may be compared.

If the supply of money—whether it be of gold or something else—is increased, all of the relations between wages, prices, debts, commodities, etc., will be altered, some people gaining and others losing, and in the shake-up there are chances for enterprise and speculation. The tendency, however, is for all old relationships to be gradually restored on the new level, so that the final effect of an increase in the volume of money is to dilute the entire stock until it has the same purchasing power as the original stock. This is the only way the new supply can be forced into use, unless there is corresponding increase in population, commodities and business, which is a different situation from that under discussion.

The Partnership of Capital and Labor.

Here is the nub of the present discussion. The people who argue that the United States has vast undeveloped resources, and therefore can absorb an unlimited amount of gold, forget that gold by itself can do nothing. It cannot dig a trench, or lay a wall, or plow a field, except as it is used to pay a workman. Capital and labor must be used together. If there was a corresponding increase in the supply of labor, and we could have a corresponding increase in the production of commodities, then indeed we could use the new supplies of gold to advantage. In the past, when gold has come from abroad in important amounts, labor has come with it, the productive equipment of the country has been enlarged and the output of products has been increased. It has been an all-around, balanced, development.

Now the whole world is thrown out of balance. We are receiving a great influx of gold, with more in prospect, but no labor is coming with it. The capacity of the country for production is not being increased. There is already an ample supply of gold and bank credit to employ all our industries to their capacity. The Comptroller of the Currency has stated that the surplus reserves of the national banks on June 23, 1915, were sufficient to allow of loan expansion to the extent of $2,000,000,000, or even $3,000,000,000—that is 30 to 50 per cent. This is more than an ample margin to take up the existing slack, and under this condition the new supplies of gold are not only not needed, but there is no possible way in which they can be forced into use, except by diluting the value of the whole stock, so that all of it may be employed in doing what the old stock was doing before.

This would mean inflation; that the same amount of labor, and the same amount of commodities, measured against a much larger amount of gold, must be figured in higher terms; in other words, that wages and commodities would rise. It may look like better times, and there might be a slight advantage to those who get the rise first, but it would be a gamble in which everybody was cheated in the end, for when each came to use his diluted dollars he would find that they would buy no more than before.

Dangers of Debt-Making.

If this were all, while the total value of our gold imports would disappear, the effects would be small compared with what is to be feared and averted, if possible. A period of rising prices is a period of debt-making. There is great temptation to use credit at such a time, and it requires unusual resolution to enable a man to pay his debts when opportunities for using money more advantageously seem to abound. Even now the very warnings that are written against inflation are being used to encourage people to buy—buy—go into things. The average man is more interested in the prospect of a rise than in the probability of a collapse afterward.

It should be clearly understood that it is not the mere presence of gold in the country, or the possibilities of the gold itself entering the circulation that is the source of danger. It is the possible use of this gold as a basis of credit that causes apprehension. If everybody will buy only what he can pay for, and go into nothing larger than he can swing with his own capital in hand, there is nothing to be feared; but in that event there will be no expansion, and the new reserves of gold will be superfluous. They can only come into use as the result of a great borrowing movement. No new gold is now going into circulation. The American people will not change their habits as to the money they carry or their use of cheques. Gold will not take the place of paper or silver. It will all go into bank reserves, where its potency is multiplied several times over.

Gold Exports After the War.

A period of rapid expansion in credits and rising prices, with attendant inflation of indebtedness, is always followed by reaction, for such a movement overreaches itself. The natural order of growth and development cannot be disturbed without losing sight of the landmarks and guideposts that indicate real values and which ordinarily safeguard the business community. But where the stimulus is plainly due to temporary conditions there is especial reason for caution about incurring future obligations on the inflated basis.

This is clearly the situation now. The United States cannot absorb into its credit system a large portion of the gold which is normally required in Europe without raising the entire level of prices and wages in this country, and, per contra, Europe cannot lose it without having its level depressed. The difference between the two levels would be so

abnormal that it could not be maintained after the war was over. All of the rest of the world would be on the European level, and able to do business with Europe only. Under such conditions the United States would leak gold from every pore. After the war is over the competition of Europe will have to be met, and it is a mistake to expect Europe to be hopelessly crippled. Emergencies and difficulties quicken the faculties of resourceful peoples. Nobody can foresee what individuals or communities may accomplish under pressure. The progress that is reported in this country now in the manufacture of chemicals and dyes is a suggestion in point. Industry may be revolutionized in Europe by the use of labor-saving machinery. In any case it is certain that after the war Europe will be speedily organized for industry and endeavoring to make good its losses. It is defying all experience to suppose that the United States could hold an undue and disproportionate amount of gold under such conditions. Unless the tariff was raised, European products would flow into this market and quickly turn the trade balance, but even if the tariff was made prohibitory upon competitive imports the outflow of gold could not be stopped. We have become accustomed to export over $2,000,000,000 worth of products per year, and that trade would rapidly dwindle. An enormous stimulus would be given to our competitors, even in farm products, if export prices were raised; while, if export prices were below domestic prices, or domestic prices upon some products were kept down by export prices, political results would be likely to follow.

But the merchandise balance of trade is not the only thing to be considered. Capital in the form of gold would flow from a congested market in the United States to needy markets elsewhere. Until the war is over many European investors doubtless will prefer to retain their holdings here, but when peace is restored the opportunities for capital there will appeal strongly to them, particularly if prices are inflated here.

American industries would probably respond to the same reasoning, and once an outward gold movement was started, and the resulting contraction of credits began, the fictitious and precarious character of the whole situation would be apparent.

Not Prophecy, But Warning.

We would repeat that this is not prophecy. We only say that if an extraordinary amount of gold is brought into the country and used as the basis of credit, this is the result that may be expected. The situation may be illustrated by the somewhat familiar experience of individuals. If an individual who meets with sudden good fortune will add his new profits to his capital, and go on with his business without losing his poise or changing his habits or methods, he will strengthen his position; but if, on the strength of temporary and accidental success, he proceeds to reorganize his business on an extravagant basis, raising his costs and selling prices, and involves himself in debts upon a speculative basis, his last position is almost certain to be worse than his first.

The United States unquestionably has an opportunity to improve its position in international trade and finance. All the world expects it to do so. But if this trade balance which is thrown into our lap results in raising the permanent level of costs and prices, so as to diminish our export trade and inflate the volume of home credits, our international position and domestic situation will be both changed for the worst.

Germany in 1873.

In 1870 and 1871 Germany fought a successful war with France. The Treaty of Peace which was signed in May, 1871, provided for the cession of Alsace and Lorraine and the payment of a cash indemnity of 5,000,000,000 francs, or approximately $1,000,000,000. This is the most important instance in history of the transfer of a great sum of wealth from one country to another in a short time, and, in view of the problem involved in the collection of our present trade balances, it is interesting to examine the details of that transaction and the effect of the transfer in Germany.

There has been a good deal of imaginative writing about how the peasants of France drew out of their hoards the gold with which to pay the indemnity, but while it is true that the frugality and thrift of the French people enabled their government to discharge the debt with surprising ease, the truth is that comparatively little gold changed hands. The payment was made for the most part in bills of exchange, as commercial payments are usually made.

The terms of the treaty called for the payment of $300,000,000 before the close of 1871, $100,000,000 May 1, 1872, and $600,000,000 on May 1, 1874. All payments were actually made before the close of September, 1873.

The details of raising the money and making the payments have been given by M. Leon Say, who was Minister of Finance at the time, and in an article written by Prof. Andre Liesse, of Paris, which appears in volume fifteen of the publications of the National Monetary Commission.

The first loan was offered in June, 1871, and from its proceeds 1,561,000,000 francs, or a little above $300,000,000, was paid. The second loan was offered in July, 1872, and provided the remainder. The loans were offered in all countries, including Germany, fifty-five banking houses participating directly and representing many more. The payments were converted by exchange operations into German credits. The larger part of the bonds were taken by the French people, who sold foreign securities for the means of doing so, and M. Say is authority for the statement that before the close of 1874 practically all that were originally subscribed for abroad had been resold in France. The net total of all payments, including interest and allowing for certain offsets, was 4,851,046,678 francs, of which 4,248,326,374 francs were paid in bills of exchange and the remainder in coin and bank notes. The total amount of French gold used was 273,003,058 francs, or approximately $52,500,000. The total amount of gold which entered Germany on account of the indemnity payments is

not shown by any publication at hand, but the operations must have thrown all of the exchanges in Germany's favor, and gold was received from other quarters, particularly London. The records of the German Mint show that the coinage of imperial gold coins, under the act of December 4, 1871, establishing the single gold standard, up to the close of 1873 was equal to $243,800,000, and to the end of 1875 $310,184,160, of which $21,800,000 was from old German gold coins. In the reorganization of the system $13,782,900 worth of old silver coins were melted down and sold for bullion up to the end of 1873, and $48,544,000 worth up to the end of 1875. It will be seen that the net addition to the stock of German coin up to the end of 1875 was about $240,000,000. It was a relatively important addition, but much short of $1,000,000,000. The rest of the indemnity must have been used in paying outside debts or in the purchase of goods and securities, the effect of which would be less stimulating upon German industry, and have less effect upon prices and wages in Germany, than importations of gold.

The net result of all influences at the time was an extraordinary period of industrial expansion, the greatest in the history of Germany down to that time. The railway system was reconstructed and extended, and the government spent a large amount upon the defenses of the Empire, which helped make busy times. From 1871 to 1874, inclusive, the industrial capacity and output of the country doubled, wages and prices rose, speculation was rampant, and indebtedness greatly increased. In 1873 and 1874 the reaction came, credit collapsed, prices fell, failures were numerous, and unemployment was widespread. The crisis was the most serious Germany has ever known, and it lasted so long that in the spring of 1879 Bismarck referred to the situation still existing in the following language:*

"According to all the rules of science France should have bled to death immediately after the war of 1870-71, whereas she has prospered brilliantly ever since; while on the other hand England and Germany—who are now both suffering from commercial depression—ought to have been in a flourishing state."

The value of the coal production of Germany during the years 1871-77 gives some idea of the activity of industry in these years:†

1871—$54,500,000	1875—$74,000,000
1872— 74,000,000	1876— 65,500,000
1873—100,500,000	1877— 54,000,000
1874— 96,500,000	

Of course, not all of either the good or evil effects of this boom period are to be attributed to the indemnity payments. The unification of the German states in the Empire was directly beneficial in many ways, and it also gave a tremendous psychological stimulus to the German people, but they did not really strike their effective gait until they had spent the indemnity and worked off its ill effects.

A Statement by Sir George Paish.

Upon the invitation of this Bank, Sir George Paish of the London *Statist*, who served during the chaotic period following the outbreak of the war as Financial Adviser to the British Treasury, has prepared the following sketch of the history of the British debt, and statement of the taxation, revenues and expenditures of the British Government in recent years, together with the latest information available upon the wealth and income of the British people. It is published here for the first time.

THE FINANCIAL STRENGTH OF GREAT BRITAIN

BY SIR GEORGE PAISH

In measuring the financial strength of nations a great many factors have to be weighed and given their due importance. An old country with an established population, enjoying a great fund of wealth accumulated through the centuries, and possessing a complete system of roads and railways, must be measured by standards that do not apply to young countries with their populations liable to fluctuate widely in numbers, with their newly acquired wealth susceptible of sudden contraction, with incomes exposed to heavy reductions from time to time, and with roads, railways and houses at all times insufficient for their needs. An old country owing nothing to other lands runs little or no financial danger however great may be its national debt, whereas a young country possessing only a relatively small national debt may experience difficulty in meeting its obligations if its income is suddenly reduced by any one of several causes. In the case of an old country with an established income the debt is merely due from the nation as a whole to individuals within the nation, and the interest it pays comes back to its Government in taxation either directly or indirectly. But a young country usually incurs debt to a foreign nation, and then the interest paid on the debt does not come back to its Government in taxation.

How large an indebtedness an old nation can incur without strain and without discomfort is shown by the experience of Great Britain in the Napoleonic wars of a century ago.

In 1816, at the close of the Napoleonic wars, Great Britain's population was about 20,000,000, her accumulated wealth was no more than £2,500,000,000 and her income did not exceed £300,000,000 per annum, but her debt was £895,000,000 with an annual interest charge of £33,000,000. It is true that at that time the taxation of the poor was heavy, but on the other hand, the taxation of the rich was light, and no one doubted the country's power to meet a debt charge which called for 11 per cent. of the nation's annual income, or to carry a debt that was equal to over one-third of the nation's total wealth, and to three times the nation's annual income. Such a debt charge would however, severely strain the powers of a young country, as the latter would probably owe abroad the greater part of the sum borrowed.

One is now discussing war debts—not debts incurred to increase production. Money raised for the latter purpose if not expended too rapidly or too unwisely should bring about a great expansion of income, and enable the borrowing country easily to meet any interest it has to pay. The British obligations of nearly £900,000,000 in 1816 were what is known as dead-weight debt—that is, debt incurred for purely unproductive purposes, and the interest upon it had to come out of an income not appreciably increased by the creation of the debt.

And the British people experienced no difficulty in meeting this great burden of interest which was equal to 11 per cent. of their total income. At that time the total annual expenditures of the Government reached £65,000,000—a sum equal to over 25 per cent. of the nation's entire income.

Great as may be the debt incurred in the present gigantic war, and great as may be the Governmental expenditure thereafter, the burden of the interest and expenditure will be nothing like as great as was the burden of interest and expenditure in 1816 and in succeeding years in relation to the power of the country to bear it.

At the present time the population of Great Britain is about 47,000,000, while her accumulated wealth is in the neighborhood of £17,000,000,000, and the annual income of the British people is about £2,400,000,000. Prior to the war the amount of British debt had been reduced to £706,000,000, and the interest charge was no more than £17,-

* Bismarck's Table Talk, p. 312.
† Encyclopedia Britannica, Article on Germany.

341,000—a sum equal to less than three-quarters of 1 per cent. of the nation's income. Moreover, the total Government expenditures of the country (excluding the reproductive services—the Post Office, telephones, etc., which yield a substantial profit) was only £165,000,000, equal to less than 7 per cent. of the nation's income against a proportion of 25 per cent. in 1816. This expenditure in 1913-14 included the large sums which the Government was paying for education, sickness and old age—expenditures which until a few years ago were paid entirely by individuals and not by the Government.

GREAT BRITAIN'S EXPENDITURES IN 1913-1914.
(Prior to the War)

Interest		£16,894,000
Road Improvement Fund		1,395,000
Payments To Local Taxation Acc.		9,734,000
Other Consolidated Fund Services		1,694,000
Army		28,364,000
Navy		49,833,000
Civil Services:	Public Education	19,450,000
	Health Insurance, etc	7,066,000
	Old Age Pensions	12,600,000
	Other Civil Services	14,785,000
Customs and Inland Revenue		4,483,000
Total		£165,280,000
Sinking Fund		7,606,000
Post Office Services		24,607,000
Grand Total		£197,493,000

The total sinking fund payments charged to expenses in 1913-14 were about £10,000,000, as beyond the sums specially earmarked, other amounts were charged on the army, navy and Post Office votes.

In spite of the increase in expenditures in the last fifteen years, the burden of the normal Governmental expenditures is much less than it was in the days of Mr. Gladstone, having regard to the great expansion in the income and wealth of the nation. Relatively the burden on the wealthy has not increased, while the burden on the great mass of the people has been greatly reduced in proportion to their incomes. The following statement of incomes assessed to income tax since the income tax was introduced in 1843 furnishes a fairly good indication of the relative growth of the nation's income from decade to decade.

INCOMES ASSESSED TO INCOME TAX.

	Exempt Under	
1843-4*	£150	£ 243,830,000
1853-4	100	286,885,000
1863-4	100	371,103,000
1873-4	100	543,026,000
1883-4	150	628,510,000
1893-4	150	673,712,000
1903-4	160	902,759,000
1913-4	160	1,186,000,000

It should be noted that the above statement of income does not include salaries and wages exempt from income tax. This additional income in 1913-14 amounted to about £1,400,000,000, whereas in 1843-44 it was only £235,000,000. The nation's total income in 1843-44 was about £460,000,000, and in 1913-14 it was £2,400,000,000, a more than fivefold growth.

To show the lightness of the burden of taxation in Great Britain, in proportion to the income available, in 1913-14 in comparison with 1859-60, and with 1815-16, I present the following statement:

	Population	National Income Per Annum	Taxation Per Annum	Annual Excess of Income Over Taxation
1815-16	20,000,000	£300,000,000	£62,000,000	£238,000,000
1859-60	29,000,000	700,000,000	66,000,000	634,000,000
1913-14	47,000,000	2,400,000,000	164,000,000	2,236,000,000

The great increase in the margin of income in excess of taxation both actually and in proportion to population will be evident from the following statement:

	Income Per Head	Taxation Per Head	Income in Excess of Taxation Per Head of Population
1815-16	£15	£3.1	£11.9
1859-60	24.1	2.2	21.9
1913-14	51.1	3.5	47.6

The burden of taxation in England has thus been growing smaller from decade to decade over the last century, until it has become quite unimportant in comparison with the national income available for paying it. A century ago the great mass of the British people were burdened with indirect taxation, while the burden of direct taxation falling on rich people was insignificant. Now, there is practically no burden of taxation on the great mass of the people, and only a very moderate burden upon the rich. In no country in the world, with the exception of the United States, has the burden of taxation been as light as it has been in Great Britain in proportion to the national income. What other country can show absence of taxation upon practically all necessaries of life and upon most comforts, and that it draws its revenue almost entirely from the taxation of luxuries?

The Customs revenue of the British people in 1913-14 was as follows:

BRITISH REVENUE FROM CUSTOMS, 1913-14.

Spirits	£4,435,000	
Wine	1,152,000	
Beer	32,000	
TOTAL ALCOHOL		£ 5,619,000
Motor Spirit		824,000
Tobacco		18,263,000
Tea, Coffee, Cocoa and Chicory		7,061,000
Sugar		3,272,000
Dried and Preserved Fruits		514,000
Miscellaneous		16,000
TOTAL CUSTOMS RECEIPTS		£35,569,000

The corresponding excise revenue, that is to say, the revenue raised from taxes on British made goods, etc., in 1913-14 was as follows:

BRITISH REVENUE FROM EXCISE, 1913-14.

Excisable Liquors:		
Beer Duty	£13,623,000	
Spirit Duty	19,540,000	
Total	£33,163,000	
Spirit, wine and beer Licenses	4,440,000	
TOTAL ALCOHOL & ALCOHOL LICENSES		£37,603,000
Carriage, Motor Car, etc., Licenses		730,000
Patent Medicine Lables		360,000
Railway Duty		288,000
Miscellaneous		677,000
TOTAL EXCISE RECEIPTS		£39,658,000

Thus the total sum raised by customs and excise duties was £75,0000,000, and of this total £43,000,000 was raised by taxes upon alcohol, and £18,000,000 on tobacco. The revenue, raised from comforts—tea, sugar, coffee, cocoa and dried fruits—consumed by all classes of the people, but mainly by the masses, was less than £11,000,000, or less than one-half of 1 per cent. of the nation's income. If one were to assume that the whole of the taxation upon these comforts was paid by the working and salaried classes, it would represent no more than three-quarters of 1 per cent. of their income. All other food is absolutely free of taxation. Apart from revenue contributed by drinkers of alcohol, this is all the taxation for national purposes paid by the great mass of the people of the country.

Next to these customs and excise duties, the only other tax that has to be paid by a great many people is "House Duty," which in 1913-14 yielded a sum of £1,930,000. This small tax is imposed only upon houses of £20 rental and over, and therefore is paid upon only about 2,000,000 houses, while over 7,000,000 houses are exempt, as their rental is less than £20 per annum. Therefore, the duty falls only on the higher-class artisans receiving substantial wages, and the wealthier classes.

The tax upon incomes in 1913-14 yielded a sum of £47,249,000. The nominal rate of duty was 1s. 2d. in the £, but in consequence of exemptions the average virtual rate levied on each pound of taxable income was no more than 11d. This tax only applied to incomes of £160 a year and over, and was collected on a total taxable income of about £977,000,000. The nominal rate of tax on earned incomes of less than £2,000 a year was 9d. in the pound, but the virtual rate of tax was no more than 4.44d. in the pound as substantial abatements were made on incomes between £160 and £700.

A super-tax of 6d. in the pound was in 1913-14 charged upon incomes of over £5,000 a year, and this yielded a sum of £3,120,000. The total income upon which super-tax was charged was estimated at £165,300,000 received by 13,500 people.

* This was the first year after the Income Tax was re-introduced by Sir Robert Peel.

Allowing for depreciation, etc., the net income of persons paying income tax in 1913-14 prior to the war was close to £1,000,000,000.

Income-tax and super-tax together yielded £47,022,000, and this was equal to less than 5 per cent. of the incomes on which tax was paid, and to no more than 2 per cent. on the nation's total income.

Death duties brought in an income of £27,359,000. This is the only tax on capital other than very moderate stamp duties on transfers of property imposed by Great Britain. The net value of the estates assessed to duty in 1913-14 was £296,432,000, and on this sum the amount paid was equal to 9.2 per cent. But it is well known that very large amounts of capital escape duty either by gifts *intervivos* or by under-valuation and exemption, and when compared with the nation's total wealth of about £17,000,000,000 the income represents an annual tax of no more than one-sixth of 1 per cent. while compared with the nation's total income of about £2,400,000,000, it is a tax of a shade over 1 per cent. only, and in comparison with the nation's income assessed to income tax of nearly £1,000,000,000, it is a tax of no more than 2¾ per cent.

From "Stamps" a revenue of £9,983,000 was obtained. Stamps are imposed on many things, but their incidence is so light that no one heeds them. The principal sources from which this stamp revenue was derived are as shown below:

REVENUE FROM STAMPS—1913-14.

Conveyances (Lands and Houses and other property)	£1,485,000
Mortgages, etc., (Lands and Houses and other property)	182,000
Marketable securities transferable by delivery	1,035,000
Share Warrants to Bearer	150,000
Bonds, Debentures, etc. (at 2s 6d. per cent. duty)	82,000
Companies 'Phone Capital Duty	705,000
Loan Capital Duty	21,000
Contract Notes (Brokers')	312,000
Transfers of Stocks and Shares	1,431,000
Composition for duty for Corporations, etc	117,000
Cheques, Receipts and other Documents	2,017,000
Bills of Exchange and Promissory Notes	1,036,000
Bankers' Bills and Notes	124,000
Bills of Lading	120,000
Marine Insurance Policies	190,000
Life Insurance Policies	111,000
Documents (deeds, etc.) not classified	304,000
Solicitors and Conveyances Certificates	146,000
Miscellaneous	415,000
TOTAL "STAMPS"	£9,983,000

The only other taxes are the land tax, yielding £700,000. and the land value duties which produced £715,000. The land tax is a survival from 1798, when a tax of £1,905,000 was placed on the land for the purpose of carrying on the war with Napoleon. To raise as large a sum as possible at the earliest moment owners of land were allowed to redeem the annual tax, and the yield has now been reduced to £630,000. The tax is thus a negligible one. The land value duties were imposed in the 1909 Budget which evoked so much opposition, and consist of taxes on the increment value of land, on reversions, on undeveloped land, and upon mineral rights. These duties were expected to give a large return as the wealth of the country increased, and the value of town lands rose. At present the taxation of land is quite unimportant.

Thus the total income from taxation in 1913-14 was £163,029,000, raised entirely by direct or indirect taxation upon luxuries and comforts, and bearing a proportion to the nation's total income of no more than 7 per cent. Of this total the taxation imposed upon the great working classes could scarcely be less, representing only about 10s. in £100 of income exclusive of the taxation upon alcohol and tobacco. The taxation imposed on the wealthier classes with average incomes of about £800 a year was less than 9 per cent. of their incomes plus a small additional sum in respect of alcohol and tobacco.

Including alcohol and tobacco the wage-earning classes pay in taxation about 4 per cent. of their incomes, and the wealthy classes about 10 per cent. of their incomes. Furthermore, it should be borne in mind that the wage-earning classes receive back in education, in health insurance, and in old-age pensions about two-thirds of the sums they contribute in taxes.

Of course, all this applies only to the cost of Government. The expenditures for local purposes upon roads, sanitation, education, etc., are paid for by what are termed rates, and in the matter of rates the working classes probably contribute more than their fair quota. If both taxes and rates are included, however, it is abundantly evident that the burden of taxation imposed upon the British people is a very light one in comparison with the income they receive, and their power of bearing it. The sources from which the revenues of Great Britain were derived in 1913-14 are here set out:

SOURCES OF GREAT BRITAIN'S REVENUE—1913-14.

Customs	£35,450,000	
Excise	39,590,000	
Estate, etc., Duties	27,359,000	
Stamps	9,966,000	
Land Tax	700,000	
House Duty	2,000,000	
Income Tax (Including Super-Tax)	47,249,000	
Land Value Duties	715,000	
TOTAL RECEIPTS FROM TAXES....		£163,029,000
Postal Service	£21,190,000	
Telegraph Service	3,080,000	
Telephone Service	6,530,000	
Crown Lands	530,000	
Receipts from Suez Canal shares and Sundry Loans	1,580,000	
Miscellaneous	2,304,000	
TOTAL RECEIPTS FROM NON-TAX REVENUE		£35,214,000
GRAND TOTAL		£198,243,000

Prior to the present great war the national income of Great Britain which had doubled itself in about 30 years to some £2,400,000,000 a year was growing rapidly, and seemed likely to double itself again in another generation. Furthermore, the wealth of the nation was increasing at the rate of some £400,000,000 per annum, and was also in a fair way to increase another 100 per cent. in three decades, while the moral, mental and physical condition of the British people was rising rapidly to a higher level in consequence of the much greater attention paid to matters of health and education.

Thus, when the war broke out the income and wealth of the British people was much greater than they had ever been before, either actually or in proportion to population. Since the war commenced the new savings of the British people have been applied to war, and consequently the wealth of the country has not increased; nevertheless, it has not diminished. It is true that the debt of Great Britain has been increased from £706,000,000 to about £1,300,000,000, and the Chancellor of the Exchequer estimates that by March 31, 1916, it will reach £2,200,000,000. But as the whole of the new loans have been raised by the British people themselves the creation of this debt has not diminished the wealth of the British nation. Had the money been raised abroad, the matter would have presented an entirely different aspect. Then there would have been, so to speak, a mortgage upon the wealth. But as it is, the new debt is merely a loan from some of the British people to the whole nation, and the wealth of the entire nation is not reduced.

The sums borrowed since the war began are as follows:

3½% War Loan	£ 350,000,000
Exchequer Bonds	34,000,000
Treasury Bills	222,000,000
New War Loan 4½%	600,000,000
TOTAL	£1,206,000,000

About two-thirds of the new loan are unspent, and will provide all the money needed for the war for several months. Beyond the money raised by loan, substantial additions have been made to taxation. In November last the duty on tea was raised by 3d. per lb. to 8d. in all giving an additional annual revenue of £3,200,000. The duty on beer was increased 17s. 3d. per barrel making 25s. in all, and yielding an additional revenue of £17,600,000, while the income tax was raised to a standard of 2s. 6d. in the £ on unearned incomes, and of 2s. 6d. in the £ super-tax producing an additional £56,000,000 compared with 1913-14. Thus in all, £77,000,000 of new taxation has been imposed. The estimated expenditure of the current year to next March and the revenue with which to meet it are as follows:

Revenue	£270,000,000
Expenditure apart from the War	154,000,000*
Balance	£116,000,000
War Expenses	978,000,000
Deficit	£862,000,000

* Excluding Army and Navy, but inclusive of about £30,000,000 of interest on war loans.

Of this deficit £600,000,000 has been covered by the new War Loan, and £159,000,000 by Treasury Bills, leaving about £100,000,000 still to be provided. The Chancellor of the Exchequer is expected to make a Supplementary Budget statement next month and to announce the methods he proposes to employ to cover the balance of the deficit. The expectation is general that he will impose additional taxation for the purpose.

Thus the great strength of the British financial situation will be evident. The debt so far incurred, including the new loan, is equal to less than one year's income, whereas the debt created in 1816 was equal to three years' income, and the taxes so far imposed on the British people are equal to less than 10 per cent. of their great income, whereas in 1816 the taxes were equal to nearly 25 per cent. of their much smaller income. Moreover, at present taxation is confined entirely to luxuries and comforts, and the whole of the supplies of necessary food, clothing and raw materials are free of taxation.

In brief, it is evident that the British people with the seas open to their commerce, and with their income and their wealth undiminished by the war, are able to find vast sums of money annually, and to meet the expenditures upon the war, however long they may last. The only reason for any foreign borrowings is the general desire not to restrict the food consumption of the nation in general, and of the poorer part of the population in particular to offset the effect on the foreign trade balance of the great purchases of foreign manufactured goods for war purposes. If necessary, the nation can and will restrict its consumption of foreign food and material, but having regard to its great wealth this course ought not to be adopted if it can be avoided. Whether or not it can be avoided depends upon the United States. If American bankers and investors will supply some portion of the great quantity of goods they are exporting in the form of loans at reasonabble rates of interest, then it will not be necessary for the civil population of Great Britain to meet the war outlays by restricting their consumption of the necessaries of life.

London, August 17, 1915.

NATIONAL DEBT OF GREAT BRITAIN.

1694	£ 600,000
1700	4,750,000
1725	48,550,000
1750	72,800,000
1800	130,000,000
1816	894,979,075
1825	850,500,000
1850	829,000,000
1875	767,000,000
1899	635,398,734
1903	798,349,190
1914	706,154,110
1915	1,161,951,702
1916a	2,200,000,000

(a) Estimate of Chancellor of the Exchequer for March 31, 1916.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 24, 1915.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	14,529	131,027	7,393	12 031	5.892	6,003	28,971	5,850	3,758	4,569	3,501	6,448	229,972
Gold Settlement Fund.....	3,228	3,189	8,408	4,813	6,296	2,483	12,454	5,124	2,658	3,028	5,453	1,916	59,050
Gold Redemption Fund...	6	55	37		375	225		35	30	77	341	21	1,202
Total gold reserves..	17,763	134,271	15,838	16,844	12,563	8,711	41,425	11,009	6,446	7,674	9,295	8,385	290,224
Legal tender notes, Silver certif's and Sub. coin....	401	16,594	2,446	933	89	132	1,292	251	4	440	331	7	22,920
Total Reserves......	18,164	150,865	18,284	17,777	12,652	8,843	42,717	11,260	6,450	8,114	9,626	8,392	313,144
Bills discounted and Loans Commercial paper	180	501	385	748	8,404	6,046	1,410	1,397	1,625	1,929	7,493	1,255	31,373
Bank acceptances.........	2,435	4,919	1,759	514	100		1,421	494	316	495		605	13,058
Total................	2,615	5,420	2,144	1,262	8,504	6,046	2,831	1,891	1,941	2,424	7,493	1,860	44,431(c)
Investment U. S. Bonds...	491		340	887			3,986	242	1,027	1,355		1,000	9,328
Municipal Warrants.......	3,731	9,305	3,049	1,736		5	2,949	1,047	745	798		1 580	24,945
Due from other F.R. Banks net......................			3,788	1,100	925	550	4,450	608	409	14	1,054	1,543	7,409(b)
Federal Reserve Notes, net	368	7,988	599	335			2,208	499	895			1,974	14,866
All other resources........	565	342	748	153	245	303	138	303	68	490	127	95	3.577
TOTAL RESOURCES.....	25,934	173,920	28,952	23,250	22,326	15,747	59,279	15,850	11,535	13,195	18,300	16,444	417,700
LIABILITIES													
Capital Paid in............	5,162	10,986	5,265	5,947	3,358	2,416	6,630	2,782	2,489	3,023	2,759	3,931	54,748
Government Deposits.....					5,000	5,000					5,000		15,000
Reserve Deposits, net.....	20,041	154,172	23,687	17,303	7,386	5,236	52,649	13,068	9,046	9,179	5,661	12,513	329,941
Due to other F. R. Banks net (b)...................	731	6,301											
Federal Reserve notes in circulation—Net Amt....					6,445	3,030				993	4,880		15,348(a)
All other Liabilities.......		2,461			137	65							2,663
TOTAL LIABILITIES.....	25,934	173,920	28,952	23,250	22,326	15,747	59,279	15,850	11,535	13,195	18,300	16,444	417,700

(a) Total Reserve notes in circulation, 115,662.
(b) After deduction of items in transit between Federal Reserve Banks, 7,409, the Gold Reserve against Net Liabilities is 82.2% and the cash reserve is 88.7%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 91%.
(c) Maturities of bills discounted and loans: 10 days, 7,487; 30 days, 11,997; 60 days, 15,561; other maturities, 9,386; Total: 44,431.

National Banks 2 per cent. Bonds.

The Federal Reserve Board has announced that it has received a number of letters from National Banks throughout the United States which desire to dispose of 2% bonds belonging to them. These letters have their origin in Section 18 of the Federal Reserve Act, which provides that after two years from the passage of the Act member banks which desire to retire the whole or any part of their circulating notes may make application to the Treasurer of the United States to sell for its account at par and accrued interest the bonds securing the circulation to be retired. The Federal Reserve Board, at its discretion, may require the Federal Reserve banks to purchase such bonds, provided that in no one year an amount in excess of $25,000,000 shall be taken.

While this section of the law becomes operative on December 23, 1915, the Federal Reserve Board has decided that it will not undertake to require the Federal Reserve banks to purchase bonds for the retirement of circulation prior to the quarterly period ending March 31, 1915. It will, however, permit banks to file application as soon as they see fit.

Commodity Paper.

The Federal Reserve Board has issued a circular in which it encourages transactions by Federal Reserve banks in trade acceptances and in commodity paper by admitting these kinds of paper to be rediscounted by Federal Reserve banks with the waiver of the particular requirements with reference to statements, and it also grants favorable rates to these classes of paper.

Commercial paper is defined as a note, draft, or bill of exchange secured by warehouse terminal receipts or shipping documents covering approved and readily marketable non-perishable staples properly insured. In order to be eligible for rediscount at the special rates to be established for commodity paper, it must comply with all the requirements of Regulation B, Series 1915, Paragraphs 1 and 2 or with the requirements of Regulation C, Series 1915, and by paper on which the rate of interest or discount, including commission charged to maker, does not exceed 6% per annum; and also comply with such regulations as may be issued by Federal Reserve banks covering requirements as to warehouse or terminal receipts, shipping documents, insurance, etc. The announcement of a 3% rate on this class of paper in Philadelphia and St. Louis Reserve banks was made on September 10, and rates subsequently established appear on the last page of this circular.

A State Bank Stockholder's Liability.

The counsel of the Federal Reserve banks has rendered a decision that no provision in the Federal Reserve Act imposes the double liability clause on the stockholders of State Banks or Trust Companies which become members of the Federal Reserve Banks.

Waiver of Demand, Notice and Protest.

The counsel of the Federal Reserve banks holds that the acceptor of a bill of exchange is the principal debtor. The law requires that notice of demand and protest be given the parties secondarily liable in case of dishonor. This right to reserve notice is a personal one which may be waived by the parties entitled thereto,—that is the drawer and endorsers; but such waiver has no effect on the acceptor, or principle debtor.

THE NATIONAL CITY BANK OF NEW YORK.